

CITY OF LUZERNE

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE TWELVE MONTH PERIOD
APRIL 1, 2020 THROUGH MARCH 31, 2021**

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City of Luzerne

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
John Brandt	Mayor	Jan 2020	Jan 2022
Dwight Glinsmann	Council Member	Jan 2020	Jan 2022
Kelly Kendall	Council Member	Jan 2020	Jan 2022
Patrick McLeod	Council Member	Jan 2020	Jan 2022
Lorin Potter	Council Member	Jan 2020	Jan 2022
Barbara Shields	Council Member	Jan 2020	Jan 2022
Janice Kendall	City Clerk/Treasurer		Indefinite
David Happel	Attorney		Indefinite

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of the City Council
City of Luzerne, Iowa

I performed the procedures below which were established at Iowa Code Chapter 11.6, to provide oversight of certain Iowa cities. Accordingly, I have applied certain procedures to selected accounting records and related information of the City of Luzerne for the period April 1, 2020 through March 31, 2021, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Luzerne's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The City of Luzerne's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose to report, in accordance with Chapter 11.6 of the Code of Iowa, recommendations pertaining to selected accounting records and related information of the City including the City's compliance with certain Code of Iowa recommendations. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures I performed are summarized as follows:

1. I observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. I obtained an understanding of the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. I observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. I obtained and observed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. I scanned City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. I observed the City's fiscal year 2020 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.

To the Honorable Mayor and
Members of the City Council
City of Luzerne, Iowa

7. I scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. I scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.
9. The City had no debt.
10. The City had no TIF.
11. I traced selected receipts to accurate accounting and consistency with the recommended COA.
12. The City had no voter approved levies.
13. I traced selected disbursements to proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. The City had no transfers.
15. I traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
16. I observed the annual certified budget for proper authorization, certification and timely amendment.

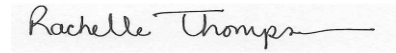
Based on the performance of the procedures described above, I identified various findings and recommendations for the City. My findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

I was engaged by the City of Luzerne's management to perform this agreed-upon procedures engagement and conducted my engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. I was not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, I do not express such an opinion or conclusion. Had I performed additional procedures, other matters might have come to my attention that would have been reported to you.

I am required to be independent of the City of Luzerne and to meet other ethical responsibilities, in accordance with the relevant ethical requirements related to my agreed-upon procedures engagement.

To the Honorable Mayor and
Members of the City Council
City of Luzerne, Iowa

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting findings and recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Rachelle Thompson". The signature is written in black ink on a light-colored, slightly textured background.

Rachelle K. Thompson, CPA
Hampton, Iowa

November 5, 2021

Detailed Findings and Recommendations

City of Luzerne
Detailed Findings and Recommendations
For the period April 1, 2020 through March 31, 2021

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Garbage – billing, collecting, depositing and posting.
- (6) Financial reporting – preparing and reconciling.

Recommendation – I realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations – The checking account balance in the City's general ledger was reconciled to the bank account balance throughout the year, however, the reconciliations were not reviewed by an independent person.

Recommendation – The City should designate an independent person to review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (C) Separately Maintained Records – The Luzerne City Fire Department maintains a bank account for activity separate from the City Clerk's accounting records. The transactions and the resulting balances were not included in the City's accounting records and were not included in the City's annual budget, monthly financial reports or Annual Financial Reports.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis.

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Garbage billings, collections and delinquent accounts should be reconciled monthly to the City's records and the delinquent account listing should be reviewed monthly.

Recommendation – Procedures should be established to reconcile garbage billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

City of Luzerne
Detailed Findings and Recommendations
For the period April 1, 2020 through March 31, 2021

- (E) Investment Policy – The City Council has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City Council should adopt a written investment policy which complies with the provisions of Chapter 12B.

- (F) Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

- (G) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be signed by the Mayor and City Clerk, posted/published within fifteen days of the meeting, document the vote of each member present, include a list of claims along with the purpose of each claim, a summary of receipts by fund, a summary of total disbursements by fund and a summary of ordinances or amendments adopted. Annual individual gross salaries are also required to be posted/published. For the minutes tested, it was noted the minutes did not contain a summary of receipts by fund, and no summary of total disbursements by fund.

Recommendation – The City should comply with the Chapter 372.13(6) of the Code of Iowa. The City should ensure the posted minutes contain a summary of receipts by fund and a summary of total disbursements by fund.

- (H) Monthly Clerk's Report – The monthly Clerk's report provided to Council, does not include a summary of beginning balance, receipts, disbursements and ending balance by fund.

Recommendation - For better financial information, the monthly reports should include the beginning balance, receipts, disbursements and ending balance for each fund.

- (I) Annual Financial Reporting – The beginning and ending cash balances on the fiscal year 2020 Annual Financial Report (AFR) did not agree to the City's reconciled cash balance and the cash balances did not include the Fire Department cash balances.

Recommendation – The City should implement procedures to ensure financial transactions are properly recorded and the AFR agrees to City records

- (J) Disbursements - One disbursement tested was not properly supported by an invoice. Two disbursements were not posted in the minutes and it was noted that \$18 in penalties were paid.

Recommendation - All disbursements should be supported by invoices or other supporting documentation. The individual reviewing and approving invoices for payment should initial and date each invoice to document their review and approval. Penalties do not meet the test of meeting public purpose.

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- (K) Road Use Tax (RUT) Receipts – It was also noted the Road Use Tax receipts are recorded in the general checking account. Receipts were not recorded in a separate Special Revenue Fund or separate account and there was no tracking of the disbursement of RUT receipts.

Recommendation – To provide better financial information and control, the Road Use Tax receipts should be recorded in a separate account or fund and all disbursements of Road Use Tax receipts should be accounted for.

